**2. Report of the Portfolio Committee on Trade and Industry on its oversight visit to sugar cane farmers and sugar industry associations in KwaZulu-Natal, dated 14 June 2018**

The Portfolio Committee on Trade and Industry, having undertaken an oversight visit to sugar cane farmers, the South African Farmers Development Association (SAFDA), the South African Sugarcane Research Institute (SASRI), and the South African Sugar Association (SASA) in KwaZulu-Natal from 25 to 26 January 2018, and having attended the official launch of SAFDA, reports as follows:

1. **Introduction**

In terms of section 42(3) of the Constitution of the Republic of South Africa, 1996, the National Assembly, among others, scrutinizes and oversees executive action. The National Assembly through the Portfolio Committee on Trade and Industry oversees the work of the Department of Trade and Industry (DTI) and the implementation of legislation, which it administers. This work would contribute to achieving national priorities such as the creation of decent employment and economic transformation.

The DTI’s main mandate is to facilitate the creation of an environment conducive to industrialisation and regional economic development that facilitates economic transformation, as well as the regulation of businesses and protection of consumers. Its range of functions should therefore support the achievement of this mandate.

This physical oversight visit provided the Committee with the opportunity to evaluate whether the DTI is performing the necessary oversight role on the implementation of legislation by industry.

1. **Background**

Among the pieces of legislation that the DTI administers is the Sugar Act, 1978 (Act No. 9 of 1978). The Act recognises specific associations within the sugar industry, the South African Sugar Association (SASA), the South African Sugar Millers’ Association (SASMA), and the South African Cane Growers’ Association (SACGA). The Act was last amended in 1992 (pre-democracy).

In October 2017, it came to the Committee’s attention that there were challenges in the sugar industry when the South African Farmers Development Association (SAFDA) briefed it and highlighted the following challenges, among others, that affect emerging and small sugarcane farmers:

* General lack of economies of scale and scope;
* Relatively high input costs (such as for chemicals and seeds);
* Lack of access to alternative markets (sugar is their only guaranteed market);
* No control of logistics and schedules, these are set at the directive of contract companies;
* Farming marginal lands and communal lands;
* Lack of access to sustainable development/commodity finances;
* Lack of access to funding;
* Reduced production and therefore limited cane supply to mills;
* Distance from sugar mills, especially for Makhathini growers; and
* High harvest to crush delays, especially after accidental burning.[[1]](#footnote-2)

Furthermore, SAFDA noted that these challenges are elevated by the implementation of an “outdated” Sugar Act and the Sugar Industry Agreement. The Act was said to be outdated because it recognises specific associations, which did not effectively cater for the needs of some industry players. SAFDA noted that its establishment was as a result of this challenge. It aims to create “farmer driven partnerships for development of sustainable black farmers and the transformation of rural industries and rural economy”[[2]](#footnote-3).

In addition, the Act provides for the collection of fees from all farmers. According to SAFDA, in the case of smaller farmers, the fees were not used for the development of smaller farmers nor were they used to address some of their challenges. However, SAFDA could not be recognised until the Sugar Act, Sugar Association Agreement, and the SASA Constitution were amended.

SAFDA came to the Committee to request intervention with regards to this as they had engaged the DTI, the SASA and the SACGA for recognition in the industry with no success. Following a series of engagements with the sugar industry stakeholders, namely SASA, SASMA, SACGA, and SAFDA, as well as the DTI, the Committee resolved that:

* Levies, paid by SAFDA members, be suspended by SASA with immediate effect;
* SASA in consultation with the other stakeholders amend its constitution to ensure that it recognises SAFDA as a player in the sugar industry; and
* The Committee would undertake an oversight visit on the sugar industry.[[3]](#footnote-4)

On 12 December 2017, SAFDA was recognised by the SASA. The decision included the amendment of the SASA Constitution as well as the Sugar Industry Agreement to ensure the recognition of SAFDA in law and the repayment of R9 million, a settlement amount for levies owed to SAFDA members.

The Committee visited small-scale farmers in KwaZulu-Natal, SASA head offices, SASRI, sugar terminal where sugar is prepared for export and attended SAFDA’s mass meeting where SAFDA was officially launched following its recognition as an industry association.

* 1. **Objectives of the oversight visit**

The purpose of the oversight visit by the Committee was to:

* Obtain first-hand information from the smaller farmers on their contribution to the sector;
* Understand the challenges faced by most small-scale sugarcane growers (SSGs);
* Engage SAFDA on the recognition by SASA, as well as on how it aims to assist small-scale farmers going forward; and
* Engage with SASA on the state of the sugar industry in South Africa.
  1. **Composition of delegation**

The delegation comprised of the following Members of Parliament:

* Ms J Fubbs, the Chairperson of the Committee (African National Congress (ANC)),
* Ms P Mantashe (ANC),
* Ms S Van Schalkwyk (ANC), and
* Ms E Ntlangwini (Economic Freedom Fighters (EFF)
* Ms Z Madalane (Reseacher)

Mr D Macpherson from the Democratic Alliance submitted an apology due to party commitments.

* 1. **Layout of the report**

The report is in three sections, which are as follows:

* Part A: Visit to the Small-Scale Sugar Cane Farmers
* Part B: Visit to Industry Support Structures
* Part C: Conclusions, Acknowledgements and Recommendations

**Part A: Visit to the Small-Scale Sugar Cane Farmers**

1. **South African Farmers Development Association (SAFDA)**

During the Committee’s engagement with various famers, the following issues were raised:

* 1. **Daily Rateable Deliveries (DRD)**

Small farmers raised concerns with the system used to access the mills when crushing sugarcane. According to the farmers, the system is set up so that large-scale farmers (farmers with larger amounts of cane in terms of tonnage) have their cane crushed first.

This means that small-scale farmers’ cane has to wait for a long time, in some cases days, to get into the mills. This is a great disadvantage for farmers because the longer the crushed cane waits, the lower its value. This translates into loss of sucrose content the longer the crushed cane waits; therefore, loss of income each day of waiting.

Small-scale farmers noted that changing the system to one where they get in first would not affect the larger farmers because smaller farmers’ yield account for approximately 10% of the annual production. Some farmers would get absolutely nothing for their cane after they eventually get their cane into the mill.

* 1. **Distance of farmers to the mills and transport costs**

SAFDA is of the view that transportation costs must be incurred by the miller rather than the farmer. SAFDA advocates for a system where the miller picks up cane from the loading zone using their own transport and not the grower’s. There are zones that are created for small farmers to drop off their cane for pick up.

However, due to transport challenges, there are incidents when the cane is not picked up; therefore, resulting in a loss for the farmer who has paid for his/her inputs into the production of the crop and has to pay for labour for the burning and crushing of the cane. Members raised concerns about this and questioned why there are no mills closer to where the farmers are. It was noted that two mills that were relatively close to the farmers had closed down.

* 1. **Farm Gate Price Determination for SSGs and Land Reform Growers**

According to the farmers, transport cost is the largest cost item for cane growers particularly because the farming is at a smaller scale and the income from the yield is smaller. So to address the challenges, SAFDA advocated for Farm Gate Price Determination for SSGs and Land Reform Growers. This means that a special provision is made for SSGs and Land Reform Growers where their cane is priced at the farm gate excluding the transport cost.

* 1. **Ownership of the Mills and Participation in the Entire Value Chain**

The farmers are of the view that both thesmall-scale growers and Land Reform farmers’ participation and benefit in the industry is minimal. Greater participation of smaller farmers should include the ownership of mills and transport companies as well as participation in other activities along the value chain not only the supply of sugarcane.

Among the things the farmers raised was the need for cooperatives that would have their own mills. SAFDA therefore advocated for significant participation of small-scale growers and Land Reform growers in the value chain of the sugar industry to ensure they fully benefit from the sector.

* 1. **Small grower support**

Furthermore, the Members raised questions on support that they receive from the DTI and the Department of Agriculture, Forestry and Fisheries (DAFF). The farmers noted that they from time to time get support from DAFF and advocated for more support from the DTI.

This should support the farmers in developing the capacity to contribute more to the sugar industry value-chain. In response to this, the DTI noted that they would assist the farmers to get the necessary support; however, they noted the opportunity to use incentives as cost-sharing grants between the DTI and the applicant (a farmer(s) or cooperative).

* 1. **Local Market Price for Small-Scale Growers**

According to SAFDA small-scale growers incur significantly larger production and transport costs than large-scale growers. This results in small-scale growers receiving no real benefit from harvesting, but rather a net loss as their cane payments’ statements show a zero or a negative amount. This further results in a continuous cycle of indebtedness. According to SAFDA, the payment system should be changed into a local market price rather than a weighted average system.

* 1. **Lack of access to new sugarcane species**

The small farmers raised concerns with their lack of access to new cane species when available. The farmers raised concerns with how SASA distributes new cane species, which are developed by the SASRI. According to the farmers, large-scale farmers are given the new species at no cost; however, the larger farmers then sell the new species to the smaller farmers. This is said to be greatly unfair to the smaller farmers and does not assist in their development. Other issues that greatly affects smaller farmers in the area include wild fires that destroy their cane before harvest, and lack of pesticides to protect their crops.

* 1. **Impact of drought**

The farmers also highlighted the impact of drought on their yields. Noting that as small-scale growers they have no alternatives in times of drought. Their crops tend to be destroyed resulting in no income to support their families. The Committee enquired about the extent of support provided by the respective Departments including the DAFF. The farmers emphasized that they receive support such as fertilisers from the DAFF from time to time; however, they would appreciate more support to address their other challenges.

**Part B: Visit to Industry Support Structures**

1. **South African Sugar Association (SASA)**

The Committee engaged with the SASA on the state of the global sugar market as well as challenges faced by the South African sugar industry. Outlined below are some of the challenges highlighted in its presentation:

* 1. **Crisis of imports**

The SASA highlighted the impact that the increase in sugar imports has had on the local price and demand for sugar. Deep-sea sugar imports increased from 51 652 tons in the 2015/16 season to 283 582 tons in the 2016/17 season, a 449% year on year increase. Furthermore, it is estimated that imports will reach 500 000 tons for the 2017/18 season. The impact of this has been a significant decline in the demand for South African produced sugar and hence its market share has also declined.

In the 2015/16 season, South Africa accounted for 76% of sugar sales; however, this is expected to decrease to 57% for the 2017/18 season. Over the same period, imports increased from a share of 2% to 28% of sales and the supply of sugar from Swaziland and the Southern African Development Community declined from 20% to 19% and 2% to 1% respectively.[[4]](#footnote-5)

SASA emphasised that this has had an adverse impact on employment in the sector. Both SASA and SAFDA, therefore, advocated for higher tariffs on imported sugar. The Committee enquired whether an application had been made to the International Trade Administration Commission of South Africa (ITAC) to consider an import tariff rate increase. SASA noted that they had made the application but it had not yet been approved, the Committee then noted that it would consider a joint meeting with the Portfolio Committee on Economic Development with the aim of getting an update on this application from ITAC and the DTI.

* 1. **Health Promotion Levy on Sugary Beverages (Sugar Tax)**

The sugar tax was introduced by the Minister of Finance in his budget speech in February 2017 and will come into effect on 1 April 2018. The levy will be 2.1c/g of sugar that is more than 4g per 100ml, with the first 4g being levy free. SASA told the Committee that the sugar tax will have a significantly adverse impact on the sugar industry. This is estimated at a 13 200 ha loss in production and approximately 3 100 job losses, this would in particular affect small-scale growers and small commercial growers.

However, the impact of the sugar tax when coupled with other industry challenges, such as the low world price for sugar, inadequate tariff protection and increasing input costs, would be even greater. SASA estimates that 20 000 direct jobs will be lost, some sugar mills will close down, and approximately 90 000 people’s livelihoods would be adversely affected.

* 1. **Sugar exports**

South Africa’s cane destination markets are mainly the European Union, China, the United States, and Japan respectively. The challenge with exports as highlighted by SASA is that industry loses money from exports. It was noted that the average export price is significantly lower that the local market price. However, with imports decreasing the local demand, industry has to export excess supply.

1. **South African Sugarcane Research Institute (SASRI)**

The SASRI is an agricultural research institute for the South African sugar industry, a research arm of SASA. It ensures that research and innovation, lead to growth in the sugar industry. The Institute has a number of programmes including the variety improvement, crop protection, crop performance and management, and systems design and optimisation.[[5]](#footnote-6) Furthermore, SASRI has extension services which ensure that there is a relationship between the sugarcane growers and the researchers. The sugarcane growers are also provided with services such as fertiliser advice, disease diagnoses and education courses.

SASRI presented on their plant-breeding project. According to SASRI, this is the second largest programme by budget appropriation following the compensation of employees. The plant breeding project aims to develop new varieties that have enhanced characteristics to better survive in South Africa. Over the years, SASRI has been looking at new varieties that are suitable for South Africa’s climate.

Each year SASRI breeds approximately 500 000 seedlings of which each has a potential to be a new species, however, only after 12 -15 years’ time would between one and five species actually become a new variety. The varieties are tested in various soils and climate conditions through KwaZulu-Natal and Mpumalanga. After a new variety has been found, SASRI requests the DTI’s approval to release this to the industry. Once approved, the information can be published in the Gazette thereafter, the seedlings can be released to the industry. In the engagement with SASRI, the following key issues were highlighted:

* 1. **Access to new species for small-scale growers**

Members raised concerns with access to new plant varieties particularly for small-scale growers. SASRI responded that in each area there are demonstration plots where growers can see whether the variety would be suitable for their soil. Furthermore, SAFDA noted that the larger farmers are prioritised for getting new varieties at no cost, but they in turn sell the new varieties to the small-scale growers, this limits access to the new varieties for the small-scale farmers. Furthermore, only large commercial farmers are part of the seed cane schemes.

* 1. **Developing new skills through mentoring**

Members questioned SASRI on the training and skills development programmes they have. SASRI said they have a number of training programmes to equip growers with the necessary skill to produce sugarcane. There are also more formal programmes such as the internship programme, which is a two year programme.

They currently have two interns both doing their PHDs. One of the interns SASRI is looking at employing as an agri-economist and the other as a plant breeder. Members welcomed the training of the youth and the development of new skills.

* 1. **Access to information and resources for all industry players**

SASRI noted that they provide a number of information sessions and publications for the industry players on all developments in the industry. This includes information that provide an understanding of which new varieties are developed as well as why certain varieties have been discontinued.

This issue arose from a concern that as SAFDA noted that some of their farmers have challenges with access to information, in particular this was in relation to a question on why some farmers are allowed to harvest a certain form of sugar cane while other others are not allowed harvest. SASRI responded that there are grower days that take place to ensure the distribution of information. SAFDA emphasised that the areas in which the grower days are organised are not always accessible to the small-scale growers particularly because they are done at the farms of the larger growers.

**Part C: Conclusions, Acknowledgements and Recommendations**

1. **Conclusions**

Based on its deliberations, the Committee drew the following conclusions:

* 1. The Committee welcomed South African Farmers Development Association’s efforts to represent the needs of the small-scale, often black, growers both in the KwaZulu-Natal and Mpumalanga areas.
  2. The Committee emphasised the need for small-scale growers to find ways to contribute to other activities in the sugar value-chain.
  3. The Committee welcomed the work of South African Sugarcane Research Institute; however, highlighted challenges with respect to access to new varieties and to information for small-scale growers.
  4. The Committee remains concerned about the state of transformation in the sugar industry, where black farmers have not been able to sufficiently penetrate the industry and grow into larger commercial growers.
  5. The Committee noted the impact that increasing imports and the newly introduced levy on sugary beverages was likely to have on the sustainability of the sugar industry, in particular on small-scale cane growers.
  6. The Committee is of the view that there is a need for a joint meeting with the Portfolio Committee on Economic Development for the Department of Trade and Industry and the International Trade Administration Commission of South Africa to brief it on the status of the sugar import tariff and the application to increase this.
  7. The Committee welcomes the decision by South African Sugar Association to set aside and allocate a percentage of the contribution received by the industry from an enhanced tariff to be for transformation and to benefit small-scale black sugarcane growers and the industry as a whole.
  8. South African Sugar Association should table its projected five-year transformation plan including the projected expenditure by 31 July 2018.
  9. The Committee should continue to receive ongoing progress reports on transformation in the industry from South African Sugar Association given uncertainties due to changes in the regulatory framework.
  10. South African Sugar Association exercises its legal authority to implement compliance protocols governing mills relationship with black cane growers including a revised payment system at the mills within two months of the tabling of the report.
  11. The Committee had the benefit of a further engagement with the Sugar Industry and the Department and acknowledged that a number of issues raised during these engagements had been addressed, including access to new seedlings.

1. **Acknowledgements**

The Committee would like to thank the Department of Trade and Industry, the South African Farmers Development Association, the South African Sugar Association, the South African Sugarcane Research Institute and the small-scale farmers for their cooperation and transparency during its oversight visit. The Committee also wishes to thank its support staff in particular the Researcher, Ms Zokwanda Madalane, for her conscientious commitment and dedication to her work. The Chairperson wishes to thank all Members of the Committee for their active participation during the process of engagement and deliberations and their constructive recommendations reflected in this report.

1. **Recommendations**

Informed by its deliberations, the Committee recommends that the House requests that the Minister of Trade and Industry should consider:

* 1. Amending the Sugar Act (Act No. 9 of 1978) to address the lack of transformation within the industry within a year after the next general election and a new government is formed.
  2. Engaging the sugar industry to develop and/or implement mechanisms to address the challenges in the sugar cane industry, including improving access to mills, access to information in relation to soil and seedlings for new sugarcane species for black sugarcane growers and reporting to the Committee within three months of the tabling of this report.
  3. Engaging the relevant Ministers to address infrastructural requirements in respect of roads and access to water for farmers.
  4. Engaging the Minister of Economic Development to ensure that the review of the import tariff on sugar is urgently concluded given the impact of sugar imports from other countries.
  5. Investigating the feasibility of developing downstream industries for alternative markets such as the ethanol and fructose industries.
  6. Engaging with the Ministers of Agriculture, Forestry and Fisheries and of Rural Development and Land Reform to increase support to emerging black sugarcane farmers.

Report to be considered.

**References**

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1. SAFDA (2017) [↑](#footnote-ref-2)
2. SAFDA (2017) [↑](#footnote-ref-3)
3. PC on Trade and Industry (2017) [↑](#footnote-ref-4)
4. SASA (2018) [↑](#footnote-ref-5)
5. SASA (n.d) [↑](#footnote-ref-6)